

CORRUPTION AND HUMAN DEVELOPMENT

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Today, corruption has been recognized as one of the hardest obstacles to international development. It is specially challenging as corruption and underdevelopment mutually reinforces one another, creating a vicious cycle that traps many developing nations. As numerous efforts around the world fail to move countries out of this trap, it has also been recognized that *political will* is an essential prerequisite for any anti-corruption reform to succeed. Sadly, political will rarely emerges from any corrupt system. A big question remaining open in the literature and practice is: where does political will come from?

In the search for an answer, this paper starts in Section I with *five conceptual questions*, which discuss the important phenomena of the *corruption trap* and the *tipping point* for anti-corruption reforms. It lays out the theoretical concept for the Human-Capability Approach against corruption. It argues that political will can hardly arise from the government itself but instead is the result of the demand from a population that is equipped with sufficient capabilities. That is, building human capabilities² is the key to create political will to fight corruption.

Section II presents an international picture of *the paths out of corruption*. The data analysis shows two main paths out of corruption: one is top-down and the other is bottom-up. Despite the popularity of the former approach, international experiences show that only a few small and relatively autocratic systems have succeeded with this approach. The majority of countries seem to move out of corruption through the bottom-up approach.

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² In this paper, we use the concept *human capability* developed by Amartya Sen and Martha Nussbaum to emphasize the ability and choice dimension of human development.

Another central observation in this section is that no country with high and broad human capability tolerates a high level of corruption. That is, *investment in human capabilities can be a vaccine against corruption* – this vaccine becomes particularly effective once human capabilities have reached a critical mass or tipping point.

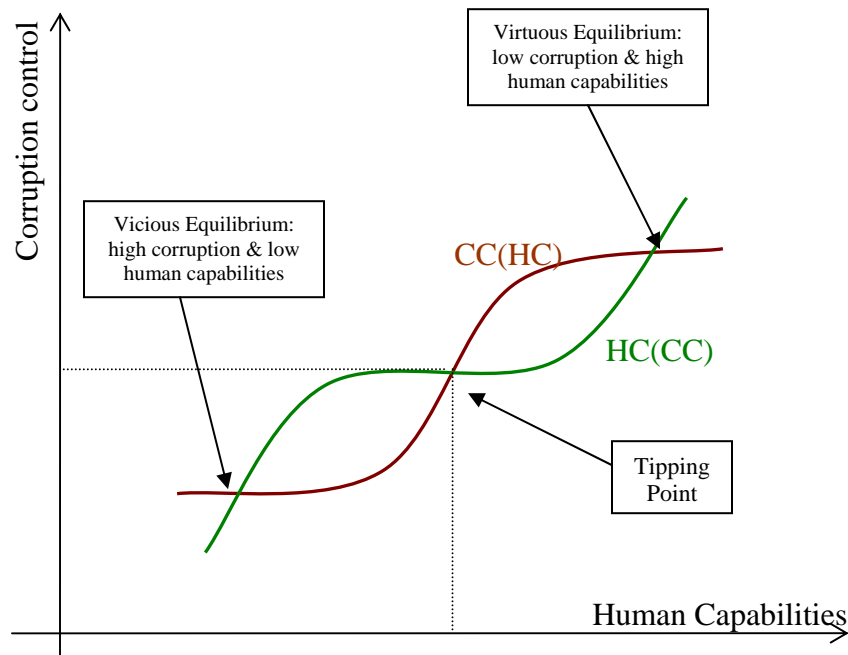
How developing countries can invest effectively into human capabilities, as a vaccine against corruption? Section III suggests three important areas for investment: *human capital, social capital and information capital*. Human capital refers to the stock of skills and knowledge owned by individual citizens. Social capital refers to the stock of relationships that enable citizens to act together. Information capital refers to the stock of information about government available to citizens. People need to be empowered by these three capitals to demand and achieve a cleaner government. The paper is completed by a *visual summary of the Human-Capability Approach* against corruption and a *list of specific policy recommendations* to implement this approach.

FIVE CONCEPTUAL QUESTIONS ABOUT CORRUPTION TRAP AND THE PATHS FOR REFORM

Question 1: Why many poor countries are stuck in corruption?

It has been observed that poor countries are often cursed with rampant corruption as corruption and human underdevelopment reinforce one another. Figure 1 below shows that the mutual relationship between corruption and underdevelopment can lead to a multiequilibria situation.

Figure 1. Two-way Relationship between Corruption and Human Capability



The Red Curve indicates the effect of Human Capabilities (HC) on Corruption Control (CC). At low level, an improvement of HC has limited effect on CC. For example, when a population is largely illiterate, an one-percent increase in literacy rate would not make a large effect on the level of corruption. As HC goes up, this effect gradually increases. However, as CC becomes

high, it would be difficult to improve it further, this effect decreases again (in other words, it is very costly to eliminate corruption completely). Therefore the relationship is S-shaped.

Similarly, the reverse effect of CC on HC is also S-shaped. When corruption is very high, an improvement in corruption control is unlikely to have a significant effect on HC. As CC improves, this effect become more significant. However, once HC has become high, it would be difficult to be improved further. In other words, when the literacy rate is already 99% and life expectancy is beyond 85 years, it would be very difficult to increase these indicators further.

As a result, the intersections of the two curves create two stable equilibria: one is virtuous and the other is vicious. The virtuous equilibrium is where rich countries are locked in while the vicious equilibrium is where poor countries are trapped in.

Question 2: What distinguishes an effective reform from an ineffective one?

A successful anti-corruption reform needs to move a country from the vicious to the virtuous equilibrium. The *tipping point* on Figure 1 separates effective reforms from ineffective ones. Weak reforms, which do not push a country beyond the tipping point, will not succeed because the country will fall back to the vicious equilibrium (this can be showed dynamically). Strong reforms, which push beyond the tipping point, will succeed as the countries with consequentially move toward the virtuous equilibrium.

It is important to note that equilibria are states of rest and are more of the exception than the rule for real country situations. In reality, countries are usually out of equilibrium and located between an equilibrium and the tipping point – we call these locations the transition points (see evidence for these transition points in the next section on the international picture)

Question 3: What are the available paths out of corruption?

Another way to ask this question is ‘how to move a country from the vicious to the virtuous equilibrium?’ Anti-corruption movements generally fall into two stylized groups

- Top-down reforms:
 - These reforms put the government in the center of their agenda and try to improve Corruption Control first.
 - Advantage: If there is a strong political will and power to combat corruption, it can be very effective and fast.
 - Disadvantage: This approach is narrow-based and faces the risk of failure or reversal because it depends on the capability, benevolence and stability of the politicians
- Bottom-up reforms:
 - These reforms put the population in the center of their agenda and try to improve Human Capabilities first.
 - Advantage: This approach is broad-based and does not assume the preexistence of political will and power.
 - Disadvantage: it might take very long time because citizens lack knowledge and weapons to demand for changes in the government.

Figure 2. Paths out of corruption

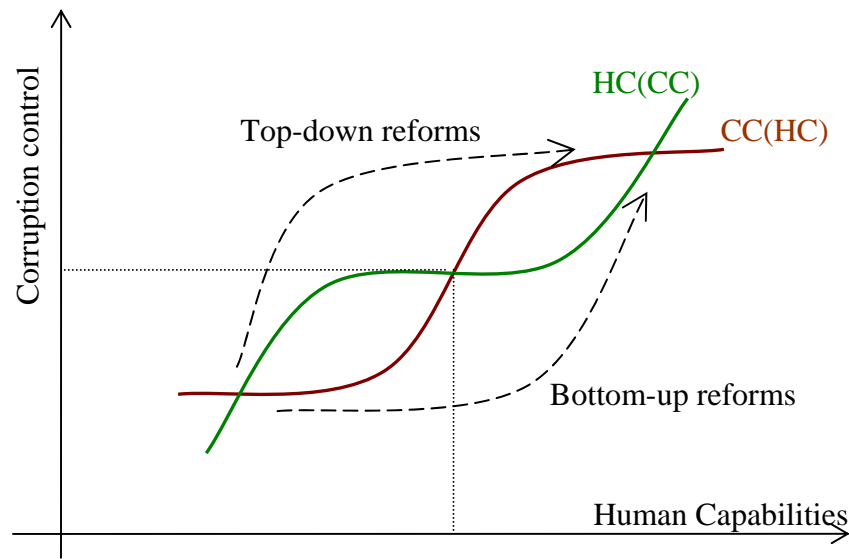


Figure 2 above describes these two reform groups graphically. Top-down reforms address corruption without relying on HC improvement and they are depicted by the higher dotted arrow. Bottom-up reforms, on the other hand, focus on improving HC first and use it to address corruption. They are depicted by the lower dotted arrow. In principle, any combination of these two types can be implemented, depending on the political system as well as other conditions present in the country.

Question 4: Why do anti-corruption reforms often fail?

Governments around the world announce ambitious anti-corruption agendas – few of which ever succeed. This is often because one or both of the following reasons.

- These agendas overly rely on top-down measures in the places where political will is rare. Bottom-up measures are not working well either because the citizens are constrained by skills, knowledge and self-interest.
- Actual reforms are weak, i.e., do not push the system beyond its tipping point

Question 5: What is the Human-Capability Approach against corruption?

The human-capacity approach recognizes the following:

- Top-down reforms often fail because of the rareness of political will
- Fortunately, political will can be created and sustained through citizens' pressure. That is, a balanced combination of both bottom-up and top-down efforts is required to combat corruption.
- However, in most countries currently citizens' pressure is weak because citizens lack of capability to monitor and demand the government.
- Therefore the task of catalyst groups (i.e. reformist officials, reporters, donors, NGO's, international community and academics) is not only to help the government to fight corruption but also to empower the citizens to demand changes in the government.

INTERNATIONAL PICTURE: THE PATHS OUT OF CORRUPTION

The previous section offers a conceptual framework to understand the corruption trap, tipping point and alternative reform paths. Let us in this part look at international data to see if there is any evidence for this framework and pattern of the paths out of corruption.

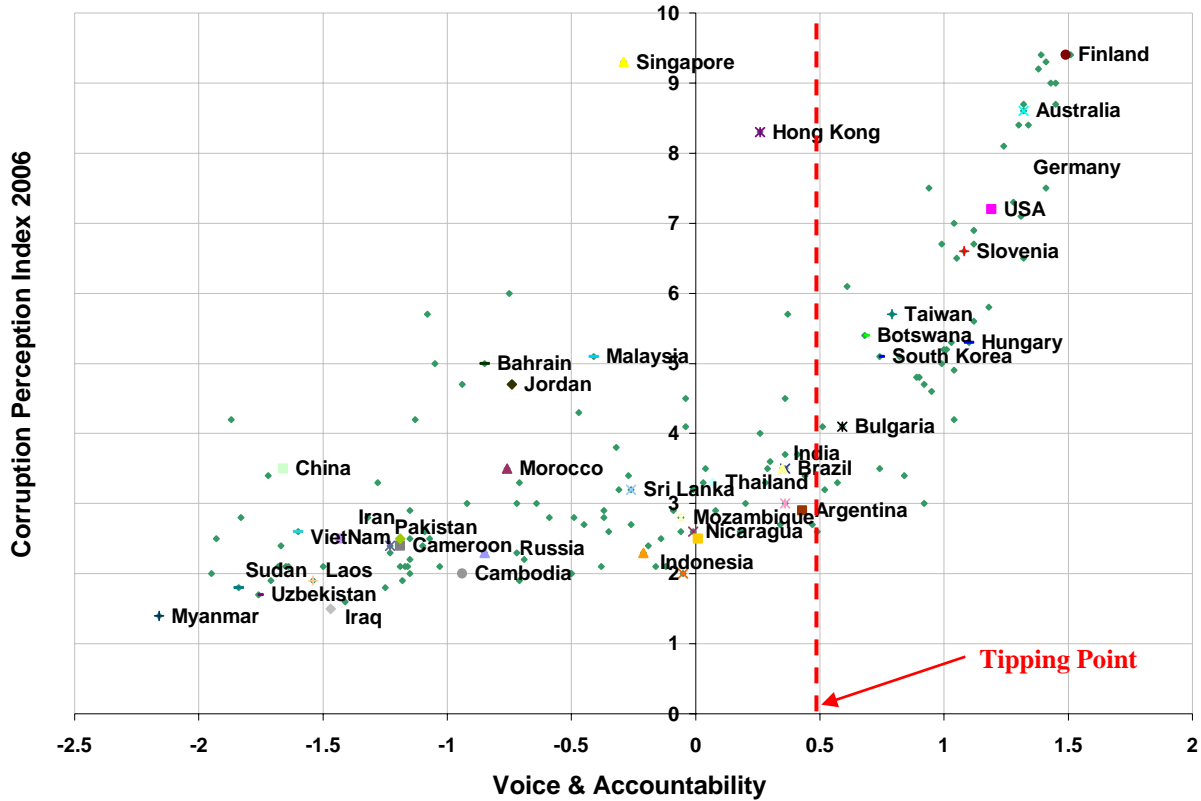
The paths out of corruption

Figure 3 plots 2007 Corruption Perception Index (of Transparency International) against Voice & Accountability Index (of the World Bank) for 150 countries. Voice & Accountability is an important human capability in fighting corruption.

If human capability helps to reduce corruption especially when it grows a certain tipping point, we should observe a weak relationship when human capacity is low, and this relationship should become strongly positive beyond a certain threshold. Strikingly, as can be seen on the figure, Voice and Accountability have very limited correlation with corruption below the threshold of 0.5. However, once Voice & Accountability pass this threshold, the correlation becomes very strong.

Figure 3 also indicates the main path out of corruption: poor countries develop their human capability under high corruption until certain threshold, then human capacity helps to reduce corruption. This is also the way many of now less corrupt countries have reduced corruption.

Figure 3. Corruption Control – Voice & Accountability Relationship



Data sources: Transparency International (<http://www.transparency.org/>) 2007, and the World Bank (<http://info.worldbank.org/governance/wgi2007/>) 2007.

Not all countries follow this path. A group of small states seems to be addressing corruption through the top-down measure, i.e. not relying much on voice and accountability. Singapore stands out in Figure 3 as the most notable example. To some extent, Hong Kong is also very successful in addressing corruption in comparison with other countries of the same level of voice and accountability. A group of small states, including Malaysia, Bahrain and Jordan also seem to be following this path.

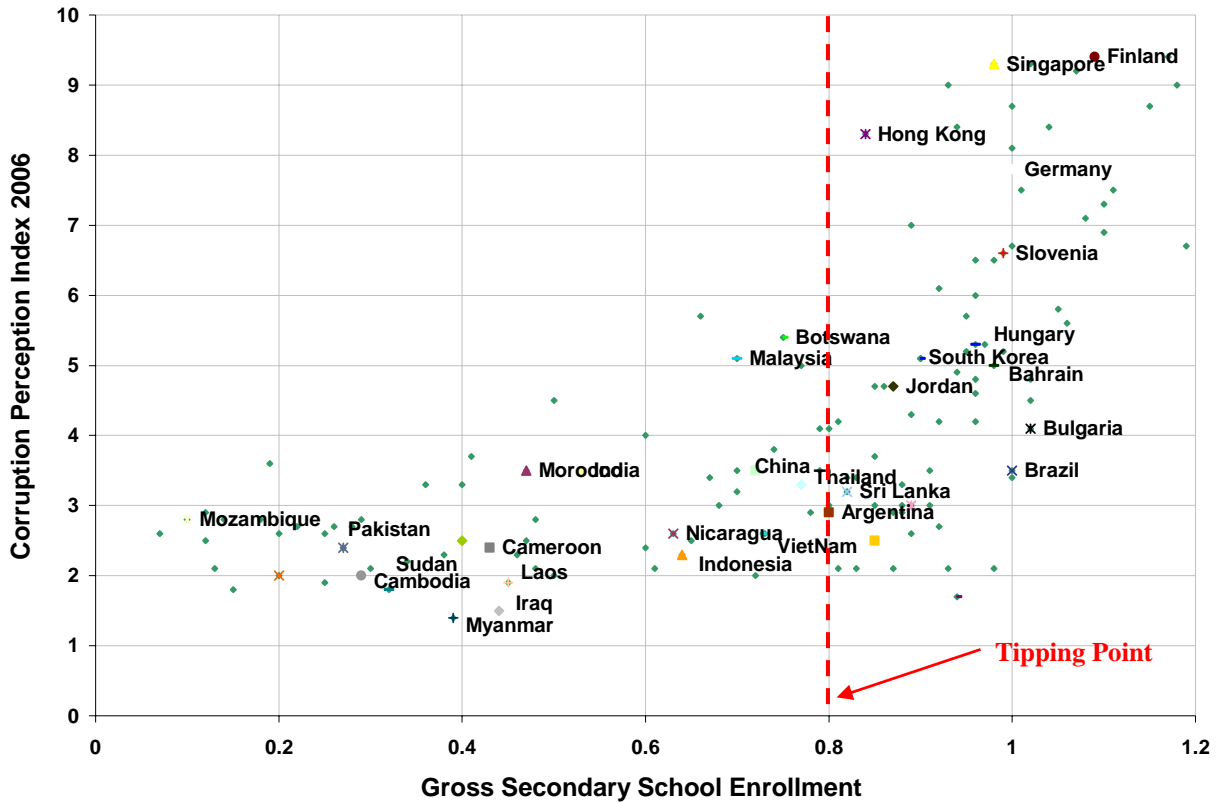
Myanmar, Sudan and Uzbekistan are among the countries that stay most far off from the tipping point in voice and accountability. China and Vietnam are not doing so well on this dimension either. Cameroon and Russia are doing somewhat better but still stay far from the tipping point. The countries that are near the tipping point are India, Thailand and Argentina. Below we will discuss whether these countries are about to tip away from the corruption trap.

Figure 5 looks at education as another dimension of human capability, but we can see a strikingly similar picture: Education, when low, has limited relationship with corruption; but this relationship become significant once education passes beyond certain level. In this case, the tipping point is about 80% secondary school enrollment.

In terms of education, India is now quite far away from the tipping point. This graph suggests some insight on why corruption is still rampant in India despite its functioning democracy. Notably, Thailand and Argentina are located near the tipping points on both graphs. This indicates hopes for the fight against corruption in these countries in the nearer term. Other countries that are close to the tipping point in education include the Philippines, Sri Lanka, Vietnam, China and Indonesia. Countries that are away from the tipping point include Papua New Guinea, Pakistan, Cambodia, Myanmar, Nepal and Laos. This figure suggests that these countries need to invest more on education to be able to address corruption successfully.³

³ For readers who are interested in the relationship between corruption control and the Human Development Index (HDI), please refer to Figure 23 in Appendix 5. Please notice however that HDI is not a good indicator for the overall development of human capabilities against corruption. For example, China on Figure 23 is much closer to the tipping point than India. This is because HDI computation is based heavily on mass education but not democracy.

Figure 4. Corruption Control – Education Relationship



Data sources: Transparency International (<http://www.transparency.org/>) 2007, and UNESCO Institute for Statistics (<http://stats.uis.unesco.org/unesco/>) 2007.

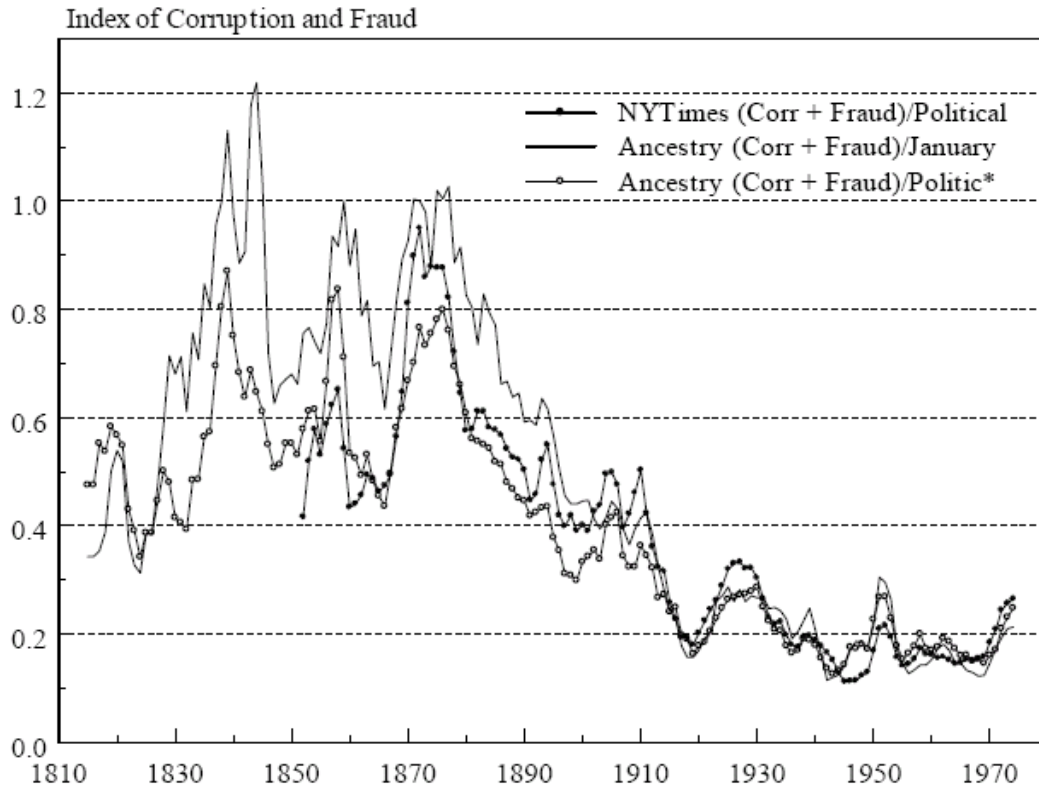
Another central observation in this section is that no country with high and broad human capability tolerates a high level of corruption. That is, *investment in human capabilities can be a vaccine against corruption* – this vaccine becomes particularly effective once human capabilities have reached a critical mass or tipping point. As human capability is a broad concept, it is important to look at its different dimensions. We will discuss these dimensions in greater details later in the last section.

How long does it take a country to break away from corruption?

Once we know the paths out of corruption, we wonder how long these paths may take. It obviously depends on the conditions for each country and period. Below we look at the experience of some countries that have followed the bottom-up path and the top-down one.

The United States had a very corrupt political and government system until early twentieth century. By that time, kickbacks for politicians constituted a large proportion of public funding for social services (Glaeser and Goldin 2006). Cash-filled envelopes floated in the hallowed halls of the US Senate as late as the 1950s (Caro 2002). It took almost a century for the United States to reform its government through an arguably bottom-up path. Workers, consumers, small investors, opposition politicians, activists and journalists contributed to the victory against corruption through a lengthy political struggle. The constructed corruption index showed on Figure 5 indicates that it took the US a long period between 1830 to 1920 to control corruption.

Figure 5. Corruption in the United States



Source: Glaeser and Goldin 2006.

In Singapore Since early 1960s the People’s Action Party (PAP) has embarked on strong top-down anti-corruption reforms. It is useful to note that Singapore before 1960 was also as corrupt as in many other places in Asia at that time. The PAP government introduced the Prevention of Corruption Act (POCA) in June 1960 to enhance the Corrupt Practices Investigation Bureau's powers. PAP has succeeded in curbing corruption by enforcing the POCA impartially within five years when Singapore attained its independence in August 1965. It took a relatively short time for the PAP to turn around the situation and create one of the cleanest and most effective bureaucracies in the modern world.⁴

It is difficult to compare the Singapore with the US experience and argue one approach is better than the other. These experiences happened at different time and conditions. One key difference is that in Singapore the initial political will to address corruption was much stronger. Many anti-corruption reforms around the world fail for one major reason: lack of political will.

Further cross-country evidence

The relationship between corruption and different aspects of human capability has been shown in many multivariate regression analyses. The following table reports a regression analysis by Svensson (2005, 30). This table shows a strong correlation between various measures of corruption and two different aspects of human capability (namely education and freedom of media), after controlling for GDP per capita.

Table 1. Corruption and Country Characteristics

Dependent variable	Control of Corruption (2002)	Corruption Perception Index (2003)	ICRG ⁵ Corruption Score (1982-01)	ICRG Corruption Score (2001)	IVSC Incidence of Bribes (2000)
Real GDP per capita	- 0.55***	- 1.29***	- 0.81***	- 0.68***	- 0.06***

⁴ It has been estimated that it took 5 years to turn corruption around in Singapore (correspondence with Professor Jon Quah at the National University of Singapore on 18 May 2007)

⁵ ICRG stands for International Country Risk Guide, an annual publication by the Political Risk Services Group.

(log)	(.11)	(.31)	(.20)	(.19)	(.01)
Years of schooling (log)	- 0.65*** (.12)	- 0.097* (.06)	- 0.18 (.28)	- 0.22 (.36)	
Freedom of media index	- 0.05** (.02)	-0.10* (.06)	-0.06** (.03)	- 0.05* (.03)	- 0.01 (.00)
Sample size	91	79	83	83	44

Notes: - *** means statistically significant at 1 percent
- ** means statistically significant at 5 percent
- * means statistically significant at 10 percent
- Standard errors are in parentheses

Some analyses have also provided strong evidence for the tipping point through identifying a nonlinear relationship between corruption and various aspects of human capability (as in Figure 4 and 5). Montinola and Jackman (2002) confirm that democracy “affects level of corruption, but this effect is nonlinear. Corruption is typically lower in dictatorships than in countries that have partially democratized. But once past a threshold, democratic practices inhibit corruption.” Sung (2004) points out linearity as a problem of previous empirical research on corruption. He shows that the cubic functional form best fit the data, even after controlling for potentially confounding factors. His analysis actually demonstrates an ambiguous effect of middle-range levels of democracy on corruption. Only beyond a certain threshold the correlation between democracy and corruption become significant.

THE HUMAN-CAPABILITY APPROACH TO COMBATING CORRUPTION

Surveys have shown that, despite numerous efforts, there has been little improvement in corruption control in many developing countries. The problem is that the majority of current anti-corruption efforts and resources are invested in the government, its capacity-building and regulations. The citizens are insufficiently involved and receive inadequate resources to participate in the fight against corruption. In other words, there is a bias toward top-down measures in the reform agendas of many countries.

A common reason for this bias is that countries hope for a shortcut out of corruption. However, international experiences show that shortcuts out of corruption have been available only to a few countries that meet two criteria: they are city-states and they have a committed and capable leadership (notable examples are Singapore or Hong Kong). No larger country has ever been successful in controlling corruption with an illiterate population or autocracy. This critical fact has been largely ignored in anti-corruption policy debates and literature.

The bottom-up path seems to be the path that most countries follow. This path does not require capable leadership but capable population. That is why strong human capabilities are a prerequisite to follow this path. There are three important capabilities that enable citizens to monitor and control the government:

- **Human capital:** this is the stock of skills and knowledge that enables citizens to work out effective strategies to control corruption in the government. Human capital can be extended through mass education.
- **Social capital:** this is the stock of relationships that enables citizens to work together against corruption in the government. Social capital can be developed through developing a strong civil society.

- Information capital: this is the stock of information about the performance of the government, politicians and officials that citizens have access to. Information capital can be enriched through an independent and vibrant media sector.

Figure 6. Human-Capability Approach against corruption

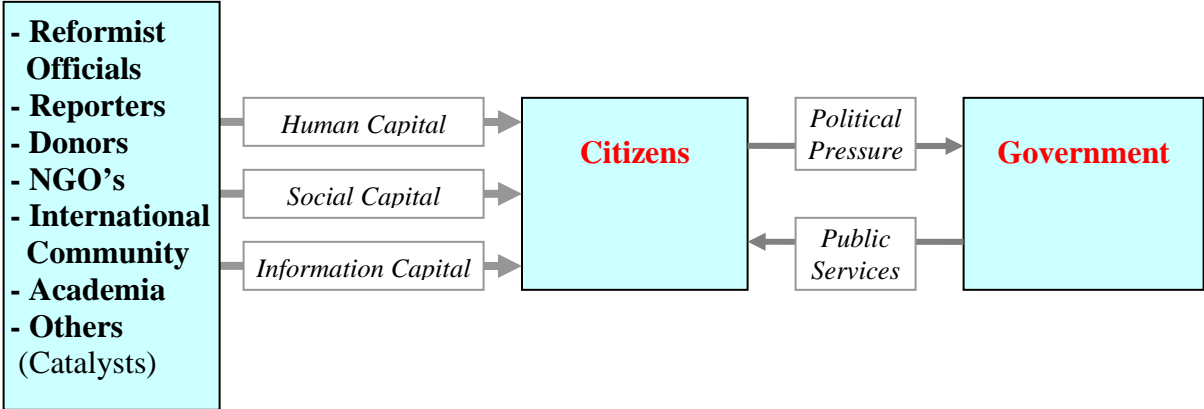


Figure 6 is a visual summary of the human capability approach against corruption. Anyone and any organization – governments, NGO’s, donors, reformist officials, reporters, researchers – who can help to develop these capitals are the catalysts for the fight against corruption (The Appendix translates this approach into a list of specific policies and programs that can improve these critical human capabilities for fighting corruption).

After World War II, nations could be grouped into one of two main categories: industrial countries and former colonies, with an enormous economic gap between them. To bridge this gap, the first generation of development strategy, which focused on macroeconomic management, saving, investment and industrialization, were implemented in these former colonies. After almost half of a century, the economic gap did not shrink but rather grew more enormous. Only then, it was realized that sound macroeconomic policy would not work in a countries with poor governance and widespread corruption. The second generation of

development strategy, which focuses on governance and anti-corruption, has been put into practice for around 15 years by now, but again with frustratingly little success.

It may be time now to recognize that governance and anti-corruption reforms will not likely to succeed with narrow investment into the governments and without the effective support of a capable citizenry. The analysis presented in this paper does not argue for a reversal to investing into citizenry but rather urge for a more balanced and effective investment in all three pillars for development: sound economic management, practical governance reforms and expansion of critical human capabilities.

APPENDIX. MEASURES TO DEVELOP HUMAN CAPABILITIES TO FIGHT CORRUPTION

<i>Human capability</i>	<i>Measures to develop human capability</i>
Human Capital	<ul style="list-style-type: none"> • Organize citizenry programs: <ul style="list-style-type: none"> ▪ Objectives: to raise awareness about the seriousness of corruption and to provide necessary skills and knowledge to fight corruption. ▪ Targets: these programs can target at the general public or specific groups. Below are several groups that deserve attention: <ul style="list-style-type: none"> * Disadvantaged groups: they are usually rural or minority people who have serious shortage of skills and knowledge; * Youth: they are a special group that is more receptive about value-training. • Adopt social marketing: marketing is a powerful tool used by firms and NGO's to build awareness and create attitude and behavioral changes. This tool can be adopted more comprehensively to make desirable changes in public attitude and action for the purpose of fighting corruption. • Protect rights: protection of human rights, free speech and whistleblower's security are important to provide conditions for citizens to participate in anti-corruption activities. Efforts must be spent to secure and promote such rights both in regulations and their enforcement. • Provide mass education: basic education is the foundation for training

	<p>of other skills. Countries with high illiteracy need to start with mass education, which might take time but evidently there is no faster way. Literacy and mass education are rewarding for the countries much more beyond anti-corruption activities.</p> <ul style="list-style-type: none"> • Engage private sector: corruption often benefits a small number of firms and hurts the whole economy. The task here is to skillfully organize a coalition of the firms that are hurt to act against corruption.
Social Capital	<ul style="list-style-type: none"> • Establish a supportive legal framework: in less democratic countries, the governments are not particular enthusiastic about promoting the civil society as they see it as a source of competition. Therefore the removal of the barrier in the legal framework or its enforcement is a precondition for the civil society to thrive. • Provide training: the civil society is rather a new phenomenon in most countries in the Asia Pacific. There is a great need for skills in management, budgeting, fund-raising, social marketing and conducting campaigns. • Create a labor pool: activism should be regarded as a rewarding profession that can compete with the private and public sectors for highly committed and talented workers. • Create sustainable activities: many NGO's dissolve as donors' funding ceases. It is important to find concepts that attract local funding and diversify the sources of finance. • Support both anti-corruption and non-anti-corruption NGO's: Non-

	<p>anti-corruption activities also strengthen civil society and indirectly contribute to anti-corruption activities. In some cases, indirect ways can be more effective and less difficult than direct ways.</p>
<p>Information Capital</p>	<ul style="list-style-type: none"> • Promote the media’s effectiveness through: <ul style="list-style-type: none"> ▪ Mixture of public and wide diversity of private ownership ▪ Protection of investigative journalists ▪ Media accountability and self-regulation ▪ Journalists’ professionalism and ethics ▪ Training for investigative journalists • Take advantage of media technologies: besides the rapid expansion of the reach of traditional media technologies (radio, television, cable TV) the Internet is truly revolutionizing and democratizing the media. Countries need to take the full advantage of this open opportunity to create a media that give citizens access to information and ability to voice against corruption. • Conduct regular surveys on corruption and public service quality; use survey results as a tool to raise awareness, as information for policy making, and as evidence for public debates and actions. • Legally require the dissemination of information about: <ul style="list-style-type: none"> ▪ Every government agency’s operations, programs and decisions ▪ Government regulations ▪ Procedure for participating in or complaining about public activities

	<ul style="list-style-type: none">▪ Government and citizens' rights and responsibilities▪ All documented information held by the Government, subject only to such exceptions as are reasonably necessary to protect public interests or personal privacy;• Create independent bodies for citizens' appeal against any refusal to provide access to government information
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